

File

Q.M.G. HOLDINGS INC.

Q.M.G. HOLDINGS INC.

Incorporated under the laws of the Province of Ontario.

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Directors: I.S. Lindzon
J.D. Harvie
D.J. Markle, Jr.
A. Gaertner
J.D. McCannell

Officers: I.S. Lindzon,
President.
R.A. Palmer,
Secretary-Treasurer.
J.D. Harvie,
Vice-President.
J.J. Brandwein,
Executive Director.

Transfer Agent and Registrar: Guaranty Trust Company of Canada,
88 University Avenue,
Toronto, Ontario.

Auditors: Fuller Jenks Landau,
Toronto, Ontario.

Solicitors: Lang, Michener, Cranston,
Farquharson & Wright,
Toronto, Ontario.

Share Listing: The Toronto Stock Exchange (QMGT)
NASDAQ (QMGHF)

Telex No.: 06-218730

Q.M.G. HOLDINGS INC.

To the shareholders:

During 1980 your Company directed its activities to those areas which would build assets rapidly and contribute to increased cash flow. Accordingly drilling was confined to those leases which had been indicated productive in 1979 and adjacent areas which would be connected to pipeline with a minimum of delay. Your Company participated in a total of 23 wells of which 22 were classified as producers and 1 was abandoned as a dry hole. Also, since a good land position is the foundation upon which future exploration programs are built, your Company, during 1980 concentrated on this aspect of operations. The following details the results of the foregoing policies.

Cooks Point, Kuykendall Area, Burleson County, Texas

Following the successful completion of the Novasad #1 well, which was drilled in 1979, as an Austin Chalk oil producer, three follow-up wells were drilled and completed in 1980. All have been completed as Austin Chalk oil wells and all are currently on production. The following table shows the official potential tests of the wells:

	Oil Bls/Day	Gas Mcf/Day	Flowing Tubing Pressure	Choke
Novasad #1	259	101	350 psi	27/64"
Horak # 1	366	136	485 psi	14/64
Sebasta #1	441	265	400 psi	20/64"
Marks #1	332	250	500 psi	14/64"

During the first quarter of 1981 two additional wells were drilled and successfully completed as Austin Chalk oil producers, the Engleman #1 and the Loehr #1. Q.M.G. has a 10% working interest in the six wells and the surrounding 480 acre lease.

Kurten Field, Brazos County, Texas

Your Company acquired a 25% working interest in a 623 acre lease located in the southwestern area of the Kurten Field, Brazos County, Texas. The initial exploratory well, Guest Ranch #1, was drilled to a depth of 10,325 feet, encountering oil and gas shows in the Austin Chalk, Woodbine, Georgetown and Edwards formation. The well was completed in the Austin Chalk, flowing 1001 barrels of oil and 358 Mcf of gas per day on a 19/64" choke with 1056 psi flowing tubing pressure.

A second well, Guest Ranch #2 was drilled to a depth of 10,300 feet and was completed in the Woodbine 'A' Sand flowing 226 barrels of oil and 100 Mcf of gas per day on a 16/64" choke with 260 psi flowing tubing pressure.

Rosewood Field, Upshur County, Texas

The Company's exploratory well, Barber Gas Unit No. 1, was successfully completed as a Cotton Valley formation gas well with a maximum open flow potential of 4,700 Mcf of gas and 20 barrels of condensate per day. Gas deliveries commenced during April, 1980, and the well is producing at an average rate of 350 Mcf of gas and 7 barrels of condensate per day.

A second well, Larson Gas Unit was drilled to a depth of 11,204 feet encountering four Cotton Valley Sands with an aggregate thickness of 58 feet. The well is now awaiting completion and pipeline connection.

Q.M.G.'s leasehold interest in the 3,000 acres covered by this prospect is 50%. Two additional development wells are planned to be drilled on this acreage during 1981.

Burleson, Brazos Counties, Texas

Your Company selected the Burleson, Brazos River area for its major exploration and development effort during 1980. The successful completion of the Mabel Wilkin #1 and the Jessie Moore #1 and # 2 led management to conclude that the geological formations encountered in these wells could be productive over a wide area. Accordingly, steps were taken to improve your Company's land position and this resulted in our obtaining a 35% working interest in an additional 14,000 net acres adjacent to and on trend with our previously held interests in the area.

During the year your Company participated in the drilling of M. Wilkin #2 and #3 and the Jessie Moore #3 and #4. All have now been completed as potential natural gas producers from multiple pay horizons in the Cretaceous formation.

To date, all the wells drilled by the Company in the area resulted in significant discoveries of natural gas and oil in commercial quantities from a number of separate zones, as summarized in the following table.

SUMMARY OF WELL COMPLETIONS
BRAZOS RIVER - YEGUA CREEK AREA

Well	Completion Zone	Test Flow Rate, Mcf/Day	Choke	Test Flowing Pressure, psi	Calculated Open Flow Potential Mcf/Day
Jessie Moore No. 1	L. Georgetown	1806	ADJ.	4269	29,000
Jessie Moore No. 2	U. Georgetown	1607	10/64	2805	2,500
Jessie Moore No. 3	Edwards Reef	2806	12/64	3340	46,300
Jessie Moore No. 4	Edwards Lime	2622	18/64	1651	3,800
Jessie Moore No. 5			Waiting on Completion		
Wilkin No. 1-U	Edwards Lime	1537	ADJ.	4421	20,500
1-L	Edwards Reef	1221	ADJ.	3916	6,500
Wilkin No. 2-U	Austin Chalk	3592	20/64	2345	8,900
2-L	Georgetown	1663	ADJ.	1960	2,100
Wilkin No. 3			Waiting on Completion		
Wilkin No. 4			Drilling		

In early 1981, Q.M.G. drilled the Leachman No. 1 and Wade A-1 wells in Burleson and Brazos Counties respectively. At the date of this report, both wells are being tested. Clajon Gas Company of Midland, Texas recently completed construction of 16" pipeline into our holdings both south and north of the Brazos River in Burleson and Brazos Counties, Texas. The Wilkin No. 1 and No. 2 and the Jessie Moore No. 1 and No. 2 are on production and the proximity of this new pipeline to our holdings should mean that all future wells will be connected to market with a minimum of delay.

Your Company recently entered into two separate gas contracts with Clajon Gas Company covering approximately 35,000 net acres in Burleson and Brazos Counties, Texas, pursuant to which, Q.M.G. will receive the maximum allowable gas prices under the National Gas Policy Act of 1978. We have recently received a reserve estimate for 7 wells in the Burleson-Brazos area which indicate gas reserves of approximately 10 billion cubic feet of gas per well per section.

Our substantial land position in the Burleson-Brazos area permits us to plan a very aggressive drilling program for 1981 which should include an additional 15 wells.

South Wellborn, Brazos County, Texas

Q.M.G. has acquired the mineral rights to a block of leases comprising approximately 929 acres located approximately 1 section north of the Company's Leachman well, north of the Brazos River, Texas. An exploratory well is planned to be drilled before the end of June, 1981, to a depth of approximately 12,500 feet to test the following sands: Wilcox, Austin Chalk, Woodbine, Buda Lime, Georgetown, Edwards. Q.M.G. has a 25% working interest in this prospect.

Southeast Millican, Brazos and Washington Counties, Texas

During 1980, your Company farmed out to three companies, 65% of its 50% interest in a block of petroleum leases aggregating some 6,369 acres. This prospect is located approximately 5 miles east of the Brazos River-Yegua Creek area where your Company is already actively involved. During 1981, Q.M.G. obtained the rights to acquire the remaining 50% interest in this prospect and an exploratory well scheduled to spud October 1, 1981, will be drilled to a depth of approximately 15,000 feet to test the Sligo formation.

Pine Island Prospect, Caddo Parish, Louisiana

During 1980 Q.M.G. participated in the drilling of a test well on a block of petroleum and natural gas leases covering an area of approximately 5,000 acres in Caddo Parish, Louisiana. The exploratory well was drilled to a depth of approximately 8,400 feet to test the Cotton Valley formation. After experiencing severe adverse weather conditions a series of mechanical problems resulted in the well having to be plugged and abandoned. As a result of a guarantee given your Company to protect us in the event the

exploratory well was not completed as an established commercial producer we have obtained a 5% carried interest, without bonus, in a block of approximately 2,400 net acres (without acreage cost) in the drilling and in the completion of an exploratory well in the North Zulch Prospect, Madison County, Texas, and a 5% working interest in a 353 acre block of petroleum leases in the Wellborn area, Brazos County, Texas (without acreage cost).

Your Company continues to maintain its interest in the 5,000 acre Caddo Parish block and it is intended to drill 2 additional wells on this prospect during 1981.

New Zealand Prospect

Q.M.G. will participate with a 3% working interest in drilling a wildcat well located offshore on the west side of the South Island of New Zealand. Q.M.G. obtained a 5% interest from New Zealand Petroleum Company Limited (and farmed out 2%) which Company recently obtained a new offshore prospecting license no. 38052 for a term of 5 years from the New Zealand Government containing approximately 1,517,935 acres. Diamond Shamrock Corporation's oil and gas unit will be the designated operator for the group which includes New Zealand Petroleum Company Limited, Triton Oil & Gas Corp., Champlin Petroleum Company, (a subsidiary of Union Pacific Corporation), Cornwall Petroleum and Resources Ltd., and Triton Investors. Diamond Shamrock Corporation's oil and gas unit will commence operations on the initial test well located 34 miles offshore in 560 feet of water using a Shell/B.P. rig on or about June 1, 1981. The well is scheduled to approximately 7,000 feet and will test the basal tertiary section on a large seismically defined structure, geologically equivalent to the producing zones of the Maui and Kapuni fields. This anomaly if productive, could reservoir sufficient reserves to have a profoundly favourable impact on your Company.

Throckmorton-Haskell Counties, Texas

Negotiations were well underway at year-end for your Company to secure a 50% interest in approximately 50,000 contiguous acres of petroleum and natural gas leases in Throckmorton and Haskell Counties, Texas. A geological evaluation including seismic studies are now underway with a view to drill approximately 15 wells on this prospect during 1981.

Cass County, East Texas

During the first quarter of 1981 your Company agreed to acquire a contiguous block of 5,330 net acres of oil and gas leases in Cass County, East Texas, for a total consideration of \$1.5 million. To augment this block of leases, your Company has taken a farmout from Napeco for an additional 1,500 net acres contiguous to the 5,330 acre block. Three exploratory wells are intended to be drilled this year to a depth of approximately 10,500 feet to test the Smackover and Rhodessa formations. Seismic studies have outlined a potentially large structure that could be hydrocarbon bearing.

Gold Mining Prospect, Destor Township, Quebec.

During 1980, your Company entered into a Joint Venture Agreement with Exploration Aiguebelle Inc. (a subsidiary of Soquem) pursuant to which Aiguebelle has the right to acquire a 65% undivided interest in the prospect if Aiguebelle carries out exploration and development work on the property representing at least \$750,000.00 and prepares at its expense a feasibility study and agrees to implement the feasibility study and develop an ore body located within the property. In the event that Aiguebelle fails to meet these conditions or fails to begin implementing the recommendations of the feasibility study with a view to develop the ore body within a 12-month period of its remittance to the Company, Aiguebelle will then lose its 65% undivided interest in the property without any right to reimbursement or compensation.

To date 18 diamond drill holes have been completed by Aiguebelle with very encouraging results. Seventeen of these holes were drilled to check and extend the main ore zone. Drill hole No. 80-18 returned 0.245% oz. of gold per ton for a core length of 46.39 feet which can be reduced to a core length of 33.26 feet averaging 0.32 oz. of gold per ton. Drilling has revealed the presence of 8 different gold mineralized zones on the property. Aiguebelle is of the opinion that over 93% of the Destor Property's gold may be recovered efficiently by the conventional direct cyanidation process. Aiguebelle has advised Q.M.G. that it proposes to undertake a work program estimated at approximately \$3 million over the next two years. Q.M.G. is still awaiting ore reserve calculations based on the work completed to date and these are expected imminently. Underground exploration and development should begin by December of this year.

Conclusion

Your Company's wells in the Bayou Tigre Field, Vermillion Parish, Louisiana and West Bethany area Harrison County, Texas, are connected to pipelines, producing gas and condensate on a regular basis. Your Company is participating with Clayton Williams in the drilling of an exploratory well in Burleson County, Texas, in close proximity to the Company's Leachman No. 1. Q.M.G. intends to participate in an exploratory well on a block of approximately 4,600 acres located east and adjacent to the town of Brenham, Washington County, Texas, during the fourth quarter of 1981. Q.M.G. will participate in an exploratory well in a 2,600 net acre block of petroleum leases in Atascosa County, Texas. Q.M.G. has recently sold at a profit the rig it purchased in 1980 and arranged for its lease back. Your Company has just re-established \$2 million in revolving credit lines, none of which has been drawn upon.

Your Board of Directors is pleased to report that for the first time in the Company's history, 1980 has shown a modest net profit. We believe 1981 will result in a significant increase in the value of your Company's oil and gas reserves and net cash flow.

On Behalf of the Board of Directors:

IRVING S. LINDZON, President.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF

Q.M.G. HOLDINGS INC.

We have examined the balance sheet of Q.M.G. Holdings Inc. as at December 31, 1980 and the statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TORONTO, ONTARIO

FULLER JENKS LANDAU

CHARTERED ACCOUNTANTS

MARCH 16, 1981 (except for
Note 4(b) as to which the
date is May 12, 1981)

Q.M.G. HOLDINGS INC.

BALANCE SHEET

AS AT DECEMBER 31, 1980

ASSETS		1980	1979
CURRENT ASSETS			
Cash and short-term deposits		\$ 4,256,552	\$ 848,255
Short-term investments (note 2)		77,909	585,075
Accounts receivable			
Oil and gas		198,186	-
Joint interest operations		348,858	-
Other		33,040	21,494
		<u>4,914,545</u>	<u>1,454,824</u>
LONG-TERM INVESTMENTS (note 3)		20,001	25,001
OIL AND GAS INTERESTS (note 4)		4,693,050	2,088,659
MINING PROPERTIES (note 5)		36,000	36,000
OTHER ASSETS (note 6)		<u>584,960</u>	<u>726,505</u>
		<u>\$10,248,556</u>	<u>\$ 4,330,989</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable		\$ 841,668	\$ 707,269
Joint interest advances		1,212,780	-
Debenture interest payable		-	64,643
		<u>2,054,448</u>	<u>771,912</u>
LONG-TERM DEBT (note 7)		-	1,763,000
DEFERRED INCOME TAXES		<u>192,500</u>	<u>-</u>
		<u>2,246,948</u>	<u>2,534,912</u>
SHAREHOLDERS' EQUITY			
CAPITAL STOCK (note 8)			
Authorized:			
10,000,000 common shares without par value			
(7,000,000 shares in 1979)			
Issued:			
7,386,204 common shares			
(4,545,750 shares in 1979)		8,411,279	2,398,304
DEFICIT		<u>(409,671)</u>	<u>(602,227)</u>
		<u>8,001,608</u>	<u>1,796,077</u>
		<u>\$10,248,556</u>	<u>\$ 4,330,989</u>

APPROVED ON BEHALF OF THE BOARD:

_____"I. S. LINDZON"_____
Director

_____"D. J. MARKLE"_____
Director

Q.M.G. HOLDINGS INC.

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1980

	<u>1980</u>	<u>1979</u>
REVENUE		
Sale of oil and gas leases	\$ 1,416,507	\$ -
Oil and gas sales	468,120	-
Investment income	<u>125,338</u>	<u>128,607</u>
	<u>2,009,965</u>	<u>128,607</u>
EXPENSES		
Cost of leases sold	698,232	-
Production costs	68,322	-
Dry hole costs	32,890	-
Interest		
Long-term debt (recovered)	(24,031)	64,643
Other	21,158	12,905
General and administrative	253,556	110,691
Depletion and depreciation	<u>331,002</u>	<u>-</u>
	<u>1,381,129</u>	<u>188,239</u>
INCOME (LOSS) FROM OPERATIONS	<u>628,836</u>	<u>(59,632)</u>
OTHER INCOME (CHARGES)		
Provision for loss on investment	(165,082)	-
Debenture costs written-off	(146,142)	-
Unrealized gain on foreign exchange	<u>67,444</u>	<u>2,246</u>
	<u>(243,780)</u>	<u>2,246</u>
INCOME (LOSS) BEFORE INCOME TAXES	385,056	(57,386)
INCOME TAXES		
Deferred	<u>192,500</u>	<u>-</u>
NET INCOME (LOSS) FOR THE YEAR	<u>\$ 192,556</u>	<u>\$ (57,386)</u>
NET INCOME (LOSS) PER SHARE	<u>\$.03</u>	<u>\$ (.01)</u>

Q.M.G. HOLDINGS INC.

STATEMENT OF DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1980

	<u>1980</u>	<u>1979</u>
DEFICIT, beginning of year	\$ 602,227	\$ 300,184
Add: Net loss for the year	-	57,386
Write-off of deferred expenditures related to abandoned mining properties	<u>-</u>	<u>244,657</u>
	602,227	602,227
Less: Net income for the year	<u>192,556</u>	<u>-</u>
DEFICIT, end of year	<u>\$ 409,671</u>	<u>\$ 602,227</u>

Q.M.G. HOLDINGS INC.

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1980

	<u>1980</u>	<u>1979</u>
WORKING CAPITAL DERIVED FROM		
Operations:		
Net income (loss) for the year	\$ 192,556	\$ (57,386)
Items not requiring an expenditure of funds:		
Debenture costs written-off	146,142	10,439
Depletion and depreciation	331,002	-
Deferred income taxes	192,500	-
	<u>862,200</u>	<u>(46,947)</u>
Debenture issue	-	2,000,000
Issue of capital stock for cash	4,249,975	-
Issue of capital stock on debenture conversion	1,763,000	237,000
Realization of long-term investments	5,000	50,000
	<u>6,880,175</u>	<u>2,240,053</u>
WORKING CAPITAL APPLIED TO		
Conversion of debentures to capital stock	1,763,000	237,000
Acquisition of working interests in oil and gas properties	2,935,393	1,796,898
Costs of debenture issue	-	156,581
Deferred expenditures	4,597	7,809
	<u>4,702,990</u>	<u>2,198,288</u>
INCREASE IN WORKING CAPITAL	2,177,185	41,765
WORKING CAPITAL, beginning of year	<u>682,912</u>	<u>641,147</u>
WORKING CAPITAL, end of year	<u>\$ 2,860,097</u>	<u>\$ 682,912</u>

Q.M.G. HOLDINGS INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1980

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Petroleum and natural gas operations

The company follows the "full-cost" method of accounting for its petroleum and natural gas operations. Under this method all costs of exploring for and developing oil and gas reserves are capitalized and, together with equipment thereon, are amortized using the unit of production method based on estimated recoverable reserves. The costs of non-productive property, including deferred expenditures relating thereto, are charged to income when they are determined to be uneconomic.

(b) Joint interest operations

Substantially all of the company's petroleum and natural gas activities are conducted jointly with others and accordingly, these financial statements reflect only the company's proportionate interest in such activities.

(c) Deferred expenditures

The company initially defers its exploration, development and administration expenditures related to the mining properties. These costs will be written off if the respective properties are abandoned or amortized over the useful life of the properties upon commencement of commercial production.

(d) Income taxes

The company follows the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts.

(e) Translation of foreign currencies

Foreign currency transactions have been translated to Canadian funds as follows:

Current assets and liabilities at the exchange rate in effect at the balance sheet date.

Fixed assets at the exchange rate in effect at the date of acquisition.

Revenue and expenses at the average exchange rate in effect during the year.

Unrealized exchange gains and losses are included in determining net income.

Q.M.G. HOLDINGS INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1980

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Comparative figures

Certain of the 1979 figures presented for comparison have been reclassified to conform with the presentation adopted in 1980.

(g) Segmented information

All of the company's activities in the petroleum and natural gas industry were conducted in the United States.

2. SHORT-TERM INVESTMENTS	<u>1980</u>	<u>1979</u>
Mortgages receivable, interest at 16% to 18% per annum, due 1981	\$ 67,909	\$ 40,000
Marketable securities, at cost	-	490,558
Loans receivable, less provision for loss of \$165,082 (1979 - nil)	<u>10,000</u>	<u>54,517</u>
	<u>\$ 77,909</u>	<u>\$ 585,075</u>

3. LONG-TERM INVESTMENTS

Mortgages receivable, interest at a minimum of 17% per annum, due 1982	\$ 20,000	\$ 25,000
Unlisted securities, at nominal value	<u>1</u>	<u>1</u>
	<u>\$ 20,001</u>	<u>\$ 25,001</u>

4. OIL AND GAS INTERESTS

(a) Petroleum and natural gas leases, rights and interests together with exploration and development expenses and equipment thereon, at cost	\$5,024,052	\$2,088,659
Accumulated depletion and depreciation	<u>331,002</u>	<u>-</u>
	<u>\$4,693,050</u>	<u>\$2,088,659</u>

(b) Pursuant to an agreement dated April 24, 1980 the President of Q.M.G. Holdings Inc. assigned his 40% interest in a certain farm-out agreement to Q.M.G. and Pan Central Explorations Limited.

Q.M.G. HOLDINGS INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1980

4. OIL AND GAS INTERESTS (continued)

(b) Proportionate to their respective assigned interests of 25% and 15%, the companies agreed to reimburse the President of Q.M.G. the \$243,200 U.S. incurred by him in acquiring this interest. It was further agreed to grant him, subject to the approval of the shareholders of the respective companies, a 25% reversionary interest after payout. As of May 12, 1981 the President of Q.M.G. waived his right to the 25% reversionary interest.

5. MINING PROPERTIES, at cost	<u>1980</u>	<u>1979</u>
11 unpatented mining claims and 1 patented mining concession in Destor Township, Quebec	<u>\$ 36,000</u>	<u>\$ 36,000</u>

The company has entered into a joint venture agreement dated June 13, 1980 with Exploration Aiguebelle Inc. for the exploration and development of its mining properties. Pursuant to the agreement Aiguebelle has the right to earn a 65% interest in the property through the expenditure of \$750,000 in exploration and development work during the five year period of the agreement, the production of a feasibility study and the making of a production decision. If it is agreed to bring the property into production, Q.M.G. must contribute its proportionate share of costs to retain a 35% interest, otherwise its interest will be reduced to 10%. The agreement further provides for Q.M.G. to retain a 100% interest if the property is not brought into production. Pursuant to this agreement, title to a 65% undivided interest in the properties has been transferred to Aiguebelle "in trust", pending completion of their obligations under the agreement.

6. OTHER ASSETS	<u>1980</u>	<u>1979</u>
Deferred mining exploration, development and administration expenditures, at cost	\$ 584,960	\$ 580,363
Unamortized debenture costs	<u>-</u>	<u>146,142</u>
	<u>\$ 584,960</u>	<u>\$ 726,505</u>

7. LONG-TERM DEBT

11% Redeemable Convertible Debentures

Balance, beginning of year	\$1,763,000	\$2,000,000
Less: Conversion to common shares	<u>1,763,000</u>	<u>237,000</u>
Balance, end of year	<u>\$ -</u>	<u>\$1,763,000</u>

Q.M.G. HOLDINGS INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1980

8. CAPITAL STOCK

During the year the company amended its Articles of Incorporation, increasing the authorized capital to 10,000,000 shares without par value.

	1980		1979	
	Number	Amount	Number	Amount
Outstanding, beginning of year	<u>4,545,750</u>	<u>\$2,398,304</u>	<u>4,249,500</u>	<u>\$2,161,304</u>
Issued for cash	650,000	4,249,975	-	-
Issued for conversion of debentures	<u>2,190,454</u>	<u>1,763,000</u>	<u>296,250</u>	<u>237,000</u>
	<u>2,840,454</u>	<u>6,012,975</u>	<u>296,250</u>	<u>237,000</u>
Outstanding, end of year	<u>7,386,204</u>	<u>\$8,411,279</u>	<u>4,545,750</u>	<u>\$2,398,304</u>

The following options to purchase common shares are outstanding as at December 31, 1980:

- (a) 200,000 shares at \$4.25 per share, exercisable by present directors and officers at 20% per annum until May 6, 1985.
- (b) On October 3, 1980 a third party agreed to make available to the company, until October 8, 1981, a line of credit of up to \$500,000 under the following terms:
 - (i) Interest on advances would be payable at the prime commercial lending rate of the Canadian Imperial Bank of Commerce plus 3/4%;
 - (ii) The terms of the loan would be for 12 months commencing from the date of the first advance;
 - (iii) Advances would be evidenced by promissory notes and secured by a subordinated floating charge debenture;
 - (iv) The lender would be granted an option to acquire 72,000 shares of the company at \$7.00 per share for 12 months and 10 days after the date of the first advance. The granting of the option is subject to acceptance of notice for filing by The Toronto Stock Exchange; and
 - (v) To date the company has not utilized this facility.

Q.M.G. HOLDINGS INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1980

8. CAPITAL STOCK (continued)

Subject to regulatory approval, the directors have authorized the following additional options:

To proposed future directors
 50,000 shares at \$6.00 per share
 35,000 shares at \$10.00 per share

To general counsel
 20,000 shares at \$14.00 per share.

9. RELATED PARTY TRANSACTIONS

	<u>1980</u>	<u>1979</u>
Remuneration paid to directors and senior officers (including the five highest paid employees) of the company	\$ 10,850	\$ 4,200
Administration and secretarial fees paid to a corporation owned by the President of Q.M.G. Holdings Inc.	\$ 24,000	\$ 24,300
Legal fees paid to the President of Q.M.G. Holdings Inc.	\$ 41,866	\$ 29,500

A majority of the members of the Board of Directors of Q.M.G. Holdings Inc. also act as directors and participate in the management of Pan Central Explorations Limited. Sale of oil and gas leases during the year includes \$285,000 for the sale to Pan Central of a 15% working interest in certain leases. This amount was receivable from Pan Central as at December 31, 1980 and was subsequently received.

As set out in note 4(b), the President of Q.M.G. Holdings Inc. has waived his right to a 25% reversionary interest in a certain farm-out agreement granted to him by the company and Pan Central Explorations Limited.

10. NET INCOME (LOSS) PER COMMON SHARE

Net income (loss) per common share is based on the weighted average number of common shares outstanding during each year. No material dilution of the results for the year ended December 31, 1980 would result from the exercise of the stock options presently outstanding, as set out in note 8.

Q.M.G. HOLDINGS INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1980

11. LITIGATION

The company is the plaintiff in a legal action instituted in the Supreme Court of Ontario claiming damages, as a result of misrepresentation by the defendant, relating to the sale in 1974 of its investment in Agnew Lake Mines Limited. The company is claiming an amount of \$4,500,000, plus interest from the date of sale and further, or in the alternative, exemplary damages in the amount of \$9,000,000, and costs of the action. At the present time, the company's legal counsel is unable to give any opinion with respect to the merits of this action.

12. COMMITMENTS

Under the terms of a drilling contract, the company has issued an irrevocable Letter of Credit for \$400,000 U.S., collaterally secured by term deposits for a like amount. This Letter of Credit expires on December 1, 1981.

13. SUBSEQUENT EVENTS

Subsequent to the balance sheet date the company entered into a contract for the purchase of an oil rig at a cost of \$3,450,000 U.S. To date \$1,500,000 U.S. has been paid under this contract.

